

ARTICLE APPEARED
ON PAGE **A1**NEW YORK TIMES
16 February 198

RUSSIANS SOUGHT U.S. BANKS TO GAIN HIGH-TECH SECRETS

Plan to Buy Institutions in 70's Was Foiled — Gaps Seen in Investment Statutes

By MARTIN TOLCHIN

Special to The New York Times

WASHINGTON, Feb. 15 — The Soviet Union secretly tried to acquire three banks in northern California and an interest in a fourth to gain access to advanced American technology, United States intelligence and military officials say.

The attempt, which was foiled by United States intelligence agents in the mid-1970's, was part of what American officials have described as a broad Soviet effort to acquire Western technology for military and commercial purposes.

United States officials and private lawyers familiar with the case said Soviet agents wove a pattern of international intrigue using disguised principals and large sums of money that traveled a circuitous route.

C.I.A. Agent Saw Pattern

The scheme failed when an agent of the Central Intelligence Agency noticed a peculiar lending pattern by the Singapore branch of a Soviet bank. The case attracted little attention in the United States, and officials and lawyers familiar with it provided details that have not been previously disclosed.

American intelligence, military and banking officials, along with some members of Congress, said the scheme raised questions about whether banking statutes, even those that have been strengthened since then, are adequate to cope with a threat to national security.

If the Soviet Union had managed to take over a bank, the officials said, it could have learned about the confidential finances of American high-technology companies, perhaps enabling it to put pressure on executives and companies or even take one over.

Takeover Plan Was Legal

The plan, which did not violate any laws, was aborted after a \$1.8 million down payment was made on the banks: the Peninsula National Bank in Burlingame, the First National Bank of Fresno, and the Tahoe National Bank

in South Lake Tahoe. In addition, the Soviet Union sought partial interest in the Camino California bank in San Francisco. Peninsula National had made numerous loans to high-technology companies and, along with the other banks, counted employees and executives of high-technology companies among its clients.

"I always viewed it as a deliberate penetration by the K.G.B. of the American banking system," said Bartholomew Lee, a San Francisco lawyer involved in a civil case resulting the effort.

Senator Daniel Patrick Moynihan, Democrat of New York, an intelligence specialist, was one of the few on Capitol Hill in the late 1970's aware of the Soviet effort. "It's a new form of industrial espionage," he said. "It doesn't involve people stealing blueprints; they own the blueprints."

M. Melnikov, deputy trade representative at the Soviet Embassy here, said he was not familiar with the takeover attempt. "I never heard this story, and I don't know anyone who has," he said. "Our relations in the financial field in the United States are practically nonexistent."

Similarly, officials of the Moscow Norodny Bank, which financed the attempt to buy interests in the banks, have insisted that its loans were strictly business transactions.

Foreign Investment Problems

To intelligence, military and banking officials, and some members of Congress, the Soviet scheme underscored one of the problems in a society that welcomes foreign investment, in which the highest bidder can acquire institutions that have access to sensitive information. They said the incident also highlighted the difficulty of learning the true principals in some financial transactions and of tracking money whose source has been under layers of transactions.

"There is sometimes a real conflict between free trade and national security," said Richard N. Perle, Assistant Secretary of Defense for international security policy. "It seems to me in our national security interests not to give the Soviets any leverage."

Mr. Perle also noted the problems of disguised ownership and said the laws should be strengthened to provide information on the true nature of these transactions. "It seems to me that at the very least we ought to have a continuing audit of what is being acquired and by whom," he said. "We ought to look behind the immediate purchaser, and satisfy ourselves that we know who we're really dealing with."

'Not a Private Affair'

Senator Moynihan said: "The ownership of banks is not a private affair. If you have to go two or three layers into the system to find out what's happening, go two or three layers into the system."

Banks can be a important source of valuable intelligence, said Representative Charles E. Schumer, a New York Democrat who is a member of the Banking Committee. "If you wanted to find out about any aspect of American industry, one of the most effective and relatively cheap ways to do it is to get inside a bank," he said. "They give unfriendly foreign powers a window into things they ought not to see."

Frederick R. Dahl, associate director of the Federal Reserve Board's division of Banking Supervision and

Regulation, said: "We're really in a public dilemma. We've always had a tradition in this country that anyone could start a bank, with the proviso that he had some money and was reputable. Then you come to the question of undesirables getting in. You try to keep them out, but it's easier said than done."

The Soviet attempt may not be an isolated one. Amos Dawe, a Singapore businessman who served as the Russians' major intermediary in the bank scheme, told Federal officials that the Soviet Union had succeeded in carrying out similar acquisitions in other parts of the country, but he declined to specify where or when, his lawyers said.

Mr. Perle agreed. "If the Moscow Norodny bank attempted to acquire banks in Silicon Valley, you can be sure that they made other efforts elsewhere," he said.

Plan to Buy Banks: Hiding Money's Source

A detailed account of the Soviet scheme was pieced together from interviews with intelligence and military officials, private lawyers familiar with the case, court records and a statement by Mr. Dawe.

According to court records, the Moscow Norodny bank's Singapore branch used Mr. Dawe to acquire the three California banks and used another intermediary, Y. T. Chou, a business associate of Mr. Dawe's, to acquire a half interest in the Camino California bank in San Francisco.

The scheme was aborted by United States intelligence officials, who released the story to an Asian financial newsletter. Mr. Dawe has acknowledged through his lawyers his role as an intermediary. Efforts to reach Mr. Chou, who is believed to be living in southeast Asia, were unavailing.

Moscow Norodny selected the banks to be acquired, and supervised their acquisition, according to Mr. Dawe's statements.

Ephraim Margolin, one of Mr. Dawe's attorneys in San Francisco, said of his client, "There is no doubt in my mind that he was working for the Russians."

Cliff Palefsky, another of Mr. Dawe's San Francisco attorneys, said his client hoped to make money on the deal. But he added: "There's no question that he was reporting to the Rus-

Continued

sians. It was Mr. Dawe's belief that the Soviets were interested in gaining some access to computer technology."

Mr. Dawe, now 51 years old, rose from postal clerk to become one of the richest men in Southeast Asia. He was the principal owner of the Mosbert Group, a holding company with interests in hotels, real estate, plantations, finance companies, and other properties. The Mosbert Group controlled some 200 companies with \$160 million in assets in southeast Asia.

Singapore to San Francisco

According to papers filed in Federal District Court in San Francisco, Mr. Dawe obtained a \$50 million line of credit in late 1974 from the Moscow Norodny bank's Singapore branch for the purpose of purchasing several banks in northern California.

The first installment of funds to Mr. Dawe, \$3 million, traveled a circuitous route from Moscow Norodny in Singapore to the Pacific Atlantic Bank in Panama, to the Commerce Union Bank in Nashville, Tenn., and, finally, by letters of credit, to Mr. Dawe in San Francisco.

In a brief interview with the British Broadcasting Corporation in 1983, Mr. Dawe recalled that Moscow Norodny had sent him to San Francisco to study various banks.

Upon his return to Singapore, Mr. Dawe said in the interview, he was surprised by how much Moscow Norodny already knew about the American banks. "I have details, they have already more details," Mr. Dawe said. "They have more details than I could imagine. They have done their homework. They have all the details of all the banks in the big area."

Mr. Dawe negotiated the sale of the Fresno, Tahoe and Burlingame banks, which were owned by the Central Bank of California.

"We had no reason to suspect that he was not the principal," Robert L. Haggan, the bank's vice president and counsel, said in an interview. "He was a very wealthy man with operations all over the world."

Court records reveal that Mr. Dawe purchased the Burlingame bank in December 1974, for \$3.05 million, placed \$300,050 in an escrow account and financed the remainder through a letter of credit issued by the Commerce Union Bank of Nashville.

Mr. Dawe purchased the Fresno and Tahoe banks in June 1975, for \$7.9 million. He placed \$808,300 in escrow and paid an installment of \$685,266 in October 1975. He also put the stock in the Fresno and Tahoe banks up as collateral for the sale.

It is not clear how much Mr. Chou, who was also backed by Moscow Norodny, paid for the half interest in Camino California in October 1975.

'One Smart C.I.A. Guy:' The Plan Falls Apart

United States officials said that an American intelligence officer with a banking background based in Singapore learned of the transactions. "It was one smart C.I.A. guy who noticed a peculiar lending pattern," Mr. Perle said. "It didn't smell right."

disclosed the purchases to Raymond Sacklyn, publisher of a Hong Kong financial newsletter, Target, according to United States officials. Mr. Sacklyn refused to identify the source of the article.

The bank deal collapsed upon publication of the article. Moscow Norodny withdrew its funds, leaving Mr. Dawe financially vulnerable.

Mr. Haggan said Central bank foreclosed on its collateral and acquired the stock to the three banks.

In July 1977, Mr. Dawe was indicted by a Federal grand jury in San Francisco on charges of improper transfer of funds in connection with his purchase of the three banks as well as the use of collateral that was previously pledged to other creditors.

In addition, a tangle of lawsuits ensued as the Soviet bank tried to get back its money from Mr. Dawe after the bank purchases were scuttled.

"The Russians wanted him," Mr. Palefsky said. "Through the Moscow Norodny bank, they were able to get him indicted in Hong Kong."

Hong Kong Extradition

Mr. Dawe, who was fighting extradition to Hong Kong on the fraud charges, returned to San Francisco from Taiwan to face the United States charges. "Amos came to the United States voluntarily, with certain promises by the Government," Mr. Margolin, another of his attorneys, said. "They promised that if he stood trial, he would be protected and not extradited. The promises were not kept."

Federal prosecutors denied that any such deal had been made, although Mr. Dawe had cooperated with the C.I.A. The United States charges were dismissed in February 1979, at the request of the Justice Department, and he was subsequently extradited to Hong Kong. Robert Mueller, an assistant United States attorney who prosecuted the case, would not comment on whether charges had been dismissed at the request of the C.I.A.

In Hong Kong, Mr. Dawe was ultimately convicted of fraud in connection with the bank scheme. He began serving a five-year prison sentence in 1984.

"A number of different people have told us that there is a basis for suspicion that Hong Kong is really doing the bidding of somebody else, perhaps knowingly, perhaps not, the bidding of the Soviet Union," Mr. Margolin told a Federal judge at Mr. Dawe's extradition hearing in 1979.

William Dorward, Commissioner for Hong Kong and its senior representative in the United States, responded through a spokesman, "It is so bizarre that I could not even begin to comment."

Mr. Chou sold his interest in the Camino California bank to Jack Johansen, the president. Mr. Chou is now living in southeast Asia, Mr. Johansen said.

Federal Banking Laws: New Measures Proposed

Intelligence and military officials say the Soviet effort fit into a broader scheme referred to last September by Defense Secretary Caspar W. Weinberger.

berger said, "more than 5,000 Soviet military research projects each year are benefiting significantly from Western-acquired technology."

Although the Federal banking laws were toughened in 1978, as a result of several cases of domestic fraud, intelligence, military and banking officials contend that they remain inadequate to block the kind of takeover attempted by Moscow Norodny bank.

There is no law, for example, prohibiting the Russians from acquiring United States banks, and intelligence officials believe that there are inadequate efforts to discover the true principals of some bank transactions.

"As long as we have an inadequate statutory base, we're going to be vulnerable," Mr. Perle said.

Steven J. Weiss, Deputy Comptroller of the Currency, said that under Federal laws, "it's tightened up a great deal, but there are still some problems."

Mr. Weiss noted that his agency had 60 days to approve or reject a proposed bank sale. Such sales can be rejected on three grounds: if the purchaser fails to provide the necessary information, lacks financial capability or is judged to lack integrity or competence.

"That's where we get a lot of murky stuff," Mr. Weiss said. "We have a standard procedure of checking with the C.I.A., F.B.I. and Interpol. Those checks frequently produce nothing."

best, he said, they produce gut reactions or information that cannot provide the basis for rejecting a sale.

"There have been cases where the proposal stinks, but we don't have the statutory grounds to turn them down," Mr. Weiss said.

Banking Timidity Charged

But a 1984 report by the House Committee on Government Operations accused the banking agencies of timidity. "Even when confronted with evidence of prior misconduct or questionable integrity, the agencies rarely deny change of control applications," the report said.

Representative Fernand J. St Germain, the Rhode Island Democrat who is chairman of the House Banking Committee, noted the problems of ascertaining the principals of some transactions. "There are many subterfuges used to disguise ownership," he said.

But he said that many of these problems could be solved by strict enforcement of existing laws. "The controller's office is wearing blinders," Mr. St Germain said.

The problem of money laundering has led the Reagan Administration and members of Congress to introduce legislation to make the process a crime.

But some believe that there is no defense against a determined, well-financed effort. "If you're willing to spend enough time, money and effort, you can get away with anything," said Quentin Breen, another of Mr. Dawe's San Francisco lawyers.

"When you live in an open society, you have to accept the consequences," Mr. Breen continued. "The question is, can we afford to continue to be an open society?"